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In the Supreme Court of the United States

OCTOBER TERM, 1996

HYDRANAUTICS, PETITIONER

v.

FILMTEC CORPORATION, RESPONDENT

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF IN OPPOSITION

PAUL W. HEIL
GARY C. COHN
The Dow Chemical Company
2030 Dow Center
Midland, Michigan 48674
(517) 636-0452

ANDREW L. FREY
Counsel of Record
DONALD M. FALK
Mayer, Brown & Platt
2000 Pennsylvania Ave., N.W.
Washington, D.C. 20006
(202) 463-2000

JAMES R. MARTIN
Gibson, Dunn & Crutcher
333 South Grand Avenue
Los Angeles, California 90071
(213) 229-7000

Counsel for Respondent

27 pp

QUESTION PRESENTED

Whether the Federal Circuit correctly determined that the facts established in prior patent infringement litigation in this case made futile the assertion, as part of an antitrust counterclaim, that the patent had been fraudulently procured and enforced.

RULE 29.6 STATEMENT

Respondent FilmTec Corporation is a wholly owned subsidiary of The Dow Chemical Company. FilmTec Corporation has no non-wholly owned subsidiaries.

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BRIEF IN OPPOSITION

The question heading this brief bears little resemblance to the question that heads the petition. That is because the legal issue discussed in the petition simply is not presented in this case. The court below did *not* decide to what extent the *Noerr-Pennington* doctrine, as explained in *Professional Real Estate Investors, Inc.* v. *Columbia Pictures Industries*, 508 U.S. 49 (1993), precludes an antitrust claim based on litigation brought to enforce a fraudulently obtained patent. See *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965). To the contrary, the Federal Circuit stated in no uncertain terms that it did *not* need to decide "whether *Noerr-Pennington* immunity is vitiated by fraud on the patent office" by "determining what effect *[Professional Real Estate]* has had on *Walker Process* and its progeny." Pet. App. 14a n.2. That issue was not before the court of appeals because facts that had "been established by prior litigations," and over which there could be "no dispute" (*id.* at 12a), foreclosed the possibility that

the patent had been fraudulently obtained. Accordingly, because the Federal Circuit was not presented with the question "whether *Noerr-Pennington* immunity is vitiated by fraud on the patent office," a decision of that question would constitute nothing more nor less than an advisory opinion.

Because the Federal Circuit determined only that the *Walker Process* issue was not presented on the facts of this case, there is no conflict between the decision below and the related decision of the Ninth Circuit. Certainly there is no conflict "on the *same* facts" (Pet. i), because the Ninth Circuit refused to address the litigated facts at all; instead, the Ninth Circuit confined its analysis to the four corners of petitioner's complaint, and thus *did* reach the *Walker Process* question that the Federal Circuit did not decide. The difference in the two courts' dispositions derives not from any disagreement on the legal principle raised by the petition but rather from the courts' differing treatment of the facts established in the patent litigation—an issue on which petitioner does not seek review.

Moreover, there is not even an implicit conflict on the issue that the petition identifies. The Ninth Circuit located its *Walker Process* analysis firmly within the "objective baselessness" inquiry that the Federal Circuit conducted, and remanded the question whether the Federal Circuit's decision precluded litigation of a *Walker Process* claim regardless of the Ninth Circuit's decision. For all that appears from the courts' opinions, if the Federal Circuit had not looked beyond the complaint, it might have reached the same result as the Ninth Circuit, while if the Ninth Circuit had considered the facts already litigated and resolved against petitioner, it might have reached the same result as the Federal Circuit. That view is reinforced by a subsequent decision in which the Federal Circuit expressly acknowledged the continuing vitality and significance of *Walker Process* claims.

Pro-Mold & Tool Co. v. *Great Lakes Plastics, Inc.*, 75 F.3d 1568, 1575 (Fed. Cir. 1996).

In short, there is no conflict between the circuits on the status of *Walker Process* claims after *Professional Real Estate*. The petition therefore should be denied.

STATEMENT

1. This case arises from a patent infringement action brought by FilmTec against petitioner Hydranautics in the United States District Court for the Southern District of California. See *FilmTec Corp.* v. *Hydranautics*, 982 F.2d 1546 (Fed. Cir. 1992), cert. denied, 510 U.S. 824 (1993). FilmTec claimed that Hydranautics had infringed a patent for a permeable membrane used to desalinize salty or brackish water through reverse osmosis filtration (the "'344 patent").

John Cadotte first made a reverse osmosis membrane that met the performance claims described in the '344 patent in February 1978, about seven weeks after he had begun working for FilmTec. Cadotte filed for the patent in February 1979, listing FilmTec as assignee, and the patent was issued in 1981. 982 F.2d at 1549; C.A. App. 150. At that time, FilmTec was a closely held corporation in which Cadotte had a small stake. C.A. App. 169. The Dow Chemical Company purchased FilmTec several years later. See *id.* at 150.

Before joining FilmTec, Cadotte had worked for Midwest Research Inc. (MRI), a not-for-profit research organization. MRI had entered into a contract with the federal government in 1976 to engage in research and development of reverse osmosis membranes. 982 F.2d at 1547. The statute governing the contract provided that "any invention [that] is made or conceived in the course of or under any contract * * * shall vest in the United States" upon certain determinations by a government administrator. *Id.* at 1548 (quoting Pub. L. No. 93-577, 88 Stat. 1878, 1887-1888 (1974)). The contract

itself granted to the federal government the domestic right to any invention conceived or first actually reduced to practice under the contract. *Ibid.* The statute and contract also required MRI to report to the government information concerning any inventions relating to the contract that had been made, conceived, or reduced to practice during and immediately after the contract term. *Id.* at 1548, 1554 n.9.

MRI hired Cadotte to conduct reverse osmosis research. 982 F.2d at 1548. Cadotte tested "hundreds, maybe thousands, of different combinations" of chemical reactions in his attempts to make an effective membrane. *Id.* at 1553. In November 1977, he formed three membranes by reacting trimesoyl chloride (TMC) with metaphenylene diamine (MPD). *Id.* at 1549. He tested two of the membranes, but was not able to achieve satisfactory purity or filtration volumes. See *id.* at 1549, 1552; C.A. App. 168. Cadotte did not perform any additional experiments using the TMC/MPD reaction while he remained at MRI, and there was no record that MRI had reported the November experiments to the government. 982 F.2d at 1549.

On December 31, 1977, Cadotte left MRI to become one of four founders of FilmTec, a company that was established to pursue commercial development of thin film technology. 982 F.2d at 1549. Nearly two months later, and more than three months after his TMC/MPD experiments at MRI, Cadotte again reacted TMC and MPD, using a substantially lower drying temperature than he had used the previous November. *Ibid.* The new membranes performed far better, and he refined his work for another year before applying for the '344 patent. *Ibid.* Although the government later investigated whether the '344 patent belonged to the government under the MRI contract, the government did not take any action to assert a right to that patent. *Ibid.*

2. After Hydranautics developed and sold similar reverse osmosis membranes, FilmTec sued Hydranautics, alleging

that Hydranautics' membranes infringed the '344 patent. At a bench trial, Hydranautics argued that Cadotte had invented the membrane covered by the '344 patent while he was employed by MRI under government contract, and that the invention and the patent therefore belonged not to FilmTec but to the United States. C.A. App. 168. Hydranautics contended that the invention occurred when Cadotte performed the November 1977 experiments, and that Cadotte had kept the invention a secret until he joined FilmTec. *Ibid.*

The district court found that Cadotte was "a very credible witness," and accordingly accepted Cadotte's testimony that "he did not find the result [of the November 1977 experiments] particularly encouraging," and that he did not recall the November experiments when he performed similar experiments the following February. C.A. App. 168. The district court also noted that the performance of the November membranes was "not within the limitations of Claims 1 or 6" of the '344 patent. *Ibid.*

In particular, the district court rejected Hydranautics claim that Cadotte "knew he had stumbled on to something" when he performed the November experiments. C.A. App. 168. It was clear to the district court that Hydranautics' defense was premised on the view that "Cadotte kept the invention to himself so that he could take it with him to FilmTec." *Id.* at 169. The court was unpersuaded by this view and, based on Cadotte's "testimony and demeanor," concluded that "there was no such subterfuge." *Ibid.*[1] The district court entered a permanent injunction against Hydranautics in September 1991. C.A. App. 171-173.

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[1] The district court found that Cadotte had little to gain from such a scheme because he had "invested a relatively small amount in FilmTec, certainly not an amount one would invest if he knew he was bringing with him a pathbreaking discovery." C.A. App. 169.

Hydranautics appealed on several grounds, but did not appeal the district court's credibility judgments or its findings that no "subterfuge" was involved in Cadotte's and FilmTec's prosecution of the patent and their view of the unimportance of the November experiments. The Federal Circuit reversed on the ground that Cadotte had "conceived" the invention—within the meaning of the contract as construed under certain principles of patent law—while at MRI, even though the November 1977 experiments did not suggest —much less produce—the superior-performing membrane that Cadotte later developed using essentially the same components. *FilmTec* v. *Hydranautics*, 982 F.2d at 1553. As a matter of law (see *ibid.*), the court determined that the membranes formed in the November experiments came "within the structural scope of the [patent] claims," even if those membranes were of no apparent value. *Id.* at 1552.

The Federal Circuit reached this conclusion without disturbing the district court's factual findings relating to Cadotte's testimony, stating that it would "not invade the province of the district court to judge matters of credibility."[2] The court of appeals held that, regardless of Cadotte's thought processes between November 1977 and February 1978, "when the invention was conceived by Cadotte" in November under the court's objective standard, "title to that invention immediately vested in the United States by opera-

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[2] The court noted its difficulty in understanding "how February experiments on the same compositions were not a direct sequel to experiments three months earlier." 982 F.2d at 1553. On that point, the court apparently did not consider that, in light of the volume of Cadotte's experimentation with membranes at both MRI and FilmTec, work that involved "hundreds, maybe thousands, of different combinations of acid chloride reactions and polyamine reactions" (*id.* at 1548, 1549, 1553), there was no reason for him to bear in mind experiments the results of which were not "particularly encouraging." C.A. App. 168.

tion of law." 982 F.2d at 1553. Accordingly, FilmTec could not maintain its patent infringement action.

Several months later, Hydranautics moved to amend its answer to FilmTec's infringement complaint to present an antitrust claim as a counterclaim in the patent litigation. Pet. App. 5a. At the same time, Hydranautics filed a separate (but identical) antitrust complaint against FilmTec. Both actions alleged that FilmTec had attempted to monopolize the market for MPD/TMC membranes by fraudulently procuring and attempting to enforce the '344 patent. *Id.* at 4a-5a.[3]

The district court dismissed the separate antitrust action on the ground that the action involved a compulsory counterclaim in the patent litigation, and denied Hydranautics leave to amend its answer in the patent case on the ground that the motion had been unduly delayed. Pet. App. 19a-28a. The district court also found that

> the underlying patent infringement suit hinged on the validity of the '344 patent. Validity of the '344 patent hinged on whether Cadotte invented the membrane under a contract between his previous employer and the United States. Validity of the '344 patent also hinged on whether Cadotte and FilmTec kept the invention a secret in order to obtain the patent. This Court found Cadotte to be

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[3] Hydranautics also moved to consolidate its antitrust action with a similar lawsuit filed by Allied-Signal Inc., which had twice been *preliminarily* enjoined against infringing the '344 patent but had twice prevailed on appeal. *FilmTec Corp.* v. *Allied-Signal Inc.*, 939 F.2d 1568 (Fed. Cir. 1991), appeal after remand, 988 F.2d 129 (Fed. Cir. 1993) (table). The *Allied-Signal* case was dismissed by stipulation before the district court had ruled on Hydranautics' motion to consolidate. Pet. App. 4a, 21a. In addition, Hydranautics moved for restitution of earnings lost while the district court's injunction was in place; both the district court (Pet. App. at 25a-26a) and the court of appeals (Pet. App. 14a-16a) denied restitution, and Hydranautics does not seek review of that issue.

> credible and explicitly rejected Hydranautics' contention that Cadotte and FilmTec defrauded the Patent Office. (Judgment, pp. 20-21). Thus, Hydranautics fully litigated whether FilmTec and Cadotte concealed their knowledge of the invention from the Patent Office.

Pet. App. 24a.

3. Hydranautics filed two related appeals. It appealed the denial of leave to amend its answer to include an antitrust counterclaim to the Federal Circuit; it appealed the dismissal of its antitrust complaint to the Ninth Circuit.[4]

The Federal Circuit affirmed. Pet. App. 1a-18a. Although it did not believe that Hydranautics had unduly delayed its motion for leave to amend its answer, the Federal Circuit held that the motion was properly denied because it was futile: Hydranautics could not maintain an antitrust claim because, "taking all of the facts and circumstances into account," FilmTec's patent infringement action had not been objectively baseless. *Id.* at 13a. The Federal Circuit expressly relied on "[t]he facts of this case," which had "been established by prior litigations" and therefore were "law of the case," leaving "no dispute" over the critical facts underlying Hydranautics' antitrust claims. *Id.* at 12a.

The Federal Circuit recognized that, "under the relevant legal test," both the "validity of the patent" and "the *manner* in which the patent application was prosecuted * * * bear directly on whether the patentee's suit is a sham" and thus is

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[4] In 1994, while those appeals were pending, Hydranautics filed yet another complaint based on FilmTec's patent infringement litigation, this time alleging common law malicious prosecution. The district court dismissed this complaint as well. *Hydranautics* v. *FilmTec Corp.*, No. 94-0631GT (AJB) (S.D. Cal. Feb. 2, 1995). Hydranautics' appeal is pending in the Ninth Circuit (No. 95-55317).

not covered by the *Noerr-Pennington* immunity. Pet. App. 8a (emphasis added). The court then held that, although it had ultimately ruled that FilmTec did not own the patent, the disputes concerning the issues that controlled the question whether the patent belonged to FilmTec or the United States—"precisely what Cadotte invented, and when"—were genuine, not fraudulent or spurious, and that FilmTec's attempt to enforce the patent based on its "understanding of those issues" was "not without reason." *Id.* at 13a-14a. As a result, FilmTec's pursuit of the patent litigation was not a sham and therefore did not violate the antitrust laws, and, as in *Carroll Touch, Inc.* v. *Electro Mechanical Systems, Inc.*, 15 F.3d 1573, 1583 n.10 (Fed. Cir. 1993), no *Walker Process* claim was presented on the facts. See Pet. App. 14a n.2.

Soon thereafter, the Ninth Circuit reversed the dismissal of the separate antitrust complaint. Pet. App. 30a-40a. That court held that the *Noerr-Pennington* doctrine permitted antitrust liability for unsuccessful patent infringement litigation if the patent had been obtained by *intentional* fraud, and the infringement plaintiff either committed the fraud or was an assignee that *knew* that the patent had been fraudulently obtained. *Id.* at 39a. The Ninth Circuit held that Hydranautics adequately pleaded that FilmTec's patent had been obtained by intentional fraud. Proof of the facts pleaded therefore would establish that FilmTec's patent litigation had not been brought with probable cause—*i.e.*, that the litigation was "objectively baseless." *Id.* at 39a-40a.

Although it acknowledged that the Federal Circuit had reached a contrary result based on the facts that had been resolved in the infringement litigation, the Ninth Circuit eschewed consideration of those facts and the legal consequences of the findings in the patent litigation, relying on "the procedural posture" of the separately docketed antitrust case in order to reverse the order of dismissal. Pet. App.

40a n.1. While the Ninth Circuit recognized that Hydranautics had litigated and lost the issue of intentional fraud at trial (see *id.* at 32a, 36a), that court believed that the Federal Circuit's reversal in the infringement case left "a blank slate on the fraud issue" (*id.* at 36a) even though the Federal Circuit had carefully left the district court's credibility findings undisturbed in the patent appeal and had relied on "all of the facts and circumstances" (Pet. App. 13a) in the antitrust appeal. The Ninth Circuit expressly declined to decide whether "the issue of objective baselessness is *res judicata*, on account of the Federal Circuit case" rejecting the antitrust counterclaim. *Id.* at 40a n.1. That issue is now before the district court on remand.

ARGUMENT

THE CIRCUITS ARE NOT IN CONFLICT ON THE STATUS OF *WALKER PROCESS* CLAIMS AFTER *PROFESSIONAL REAL ESTATE*

By no standard does this case warrant review. There is no conflict in the circuits regarding the survival of *Walker Process* claims after *Professional Real Estate*, and, in any event, the Federal Circuit did not decide that issue in this case. At bottom, Hydranautics is dissatisfied with the district court's unappealed determinations of witness credibility when Hydranautics litigated the fraud claim as a patent infringement defense, and with the Federal Circuit's reliance on those determinations to take the fraud claims out of the antitrust case. That issue, not raised in the petition, does not warrant this Court's review. The petition should be denied.

A. There Is No Conflict Because The Federal Circuit Expressly Declined To Reach The Question That Hydranautics Claims Is Presented

Hydranautics asserts that the Federal and Ninth Circuits have reached opposite conclusions, based "on the *same* facts," on the question whether *Walker Process* claims

survive *Professional Real Estate Investors*. Pet. i. The Federal Circuit did nothing of the sort, but instead held that the question was *not presented* on the litigated facts of the '344 patent infringement action, and thus explicitly "*avoid[ed]* determining what effect [*Professional Real Estate*] has had on *Walker Process* and its progeny." Pet. App. 14a n.2 (emphasis added). In so stating, the Federal Circuit simply echoed (and cited) the statement it had made in *Carroll Touch*, to the effect that it "need not decide the applicability of *Noerr* immunity to a litigant who sues on a patent procured by fraud" when the facts of the case do not present the issue. 15 F.3d at 1583 n.10.

The only district court that has attempted to apply the decision below to a *Walker Process* claim had to decide whether the Federal Circuit held what it said it held, or whether, as Hydranautics urges here, it in fact held that *Walker Process* claims have been eradicated by *Professional Real Estate*. The district court had little difficulty in accepting the Federal Circuit at its word. That court explained that it would not "interpret *Filmtec* as indirectly holding that the *Noerr-Pennington* analysis subsumes the Walker Process analysis" because "such an interpretation would be overreaching," in light "of the *Filmtec* court's express language." *Nobelpharma AB* v. *Implant Innovations, Inc.*, ___ F. Supp. ___, 1996 WL 341966, at *9, No. 91-C-4632 (N.D. Ill. June 19, 1996).

The Federal Circuit's conclusion that no *Walker Process* claim was presented on the facts of this case was perfectly plausible. A claim under *Walker Process* requires (1) intentional fraud on the Patent Office by the patentee, and (2) knowledge of the fraud (and the patent's resulting infirmity) by the antitrust defendant that attempted to enforce the patent. 382 U.S. at 177 & n.5; *id.* at 179 (Harlan, J., concurring).

In this case, the Federal Circuit held that FilmTec, based on its understanding of "what Cadotte invented, and when," reasonably "staked a claim to owning the '344 patent as Cadotte's assignee." Pet. App. 13a-14a. On that basis, "and in view of all that has transpired in th[e] case" (*id.* at 14a)—"*including* the manner in which the patent application was prosecuted" (*id.* at 8a) (emphasis added)—the Federal Circuit then correctly held that "allowing Hydranautics to amend its answer by adding an antitrust counterclaim would be a futile act" (*id.* at 14a).

It is no wonder that Hydranautics avoids addressing what "has transpired in this case": Hydranautics already litigated—and lost—the very issues that it now advances as the foundation for an antitrust claim. Hydranautics' complaint identified three supposed bad acts by FilmTec: (1) filing for the '344 patent when it "knew" that the United States owned the patent; (2) falsely responding to a 1985 government inquiry that the invention in the '344 patent had been conceived after Cadotte left MRI; and (3) suing Hydranautics while lacking any reasonable belief that it owned the patent. Pet. App. 33a. Hydranautics does not challenge the Federal Circuit's determination that *Noerr-Pennington* shielded FilmTec from antitrust liability except to the extent that the court did not allow Hydranautics' allegations of intentional fraud to override the *Noerr-Pennington* immunity.

But the only alleged fraud depends on Cadotte's and FilmTec's *knowledge* that, in the eyes of the law, Cadotte had "conceived" the relevant invention when he performed some unmemorable experiments that, as the district court found, "were exactly that—experiments." C.A. App. 169. As the Federal Circuit held, FilmTec's views on the murky issue of "conception" were objectively reasonable; there is room to disagree about the phenomenology of mind and the mechanics of discovery. Only if Cadotte had been *dishonest* about the development of his mental processes, and only if

FilmTec *knew* that he was dishonest, could a claim of intentionally fraudulent conduct stand.

Hydranautics claimed that Cadotte had committed a fraud on the Patent Office by concealing the timing of his invention. See C.A. App. 168-169. That claim begs the question whether Cadotte knew he had "conceived" the membranes made in February when he made similar but inferior membranes in an unremarkable experiment three months earlier. If Cadotte had been correct that the invention did not occur until February, there was nothing to conceal; and the Federal Circuit held that it was reasonable for him (and FilmTec) not to foresee that court's view of the legal significance of the November experiments—particularly since his own view of the actual date of invention persuaded the district court. It cannot be "fraud" to act in accordance with a reasonable but incorrect view of that significance, and thus the Federal Circuit's conclusions negated all of Hydranautics' allegations of fraud.[5]

In addition, the district court rejected Hydranautics' claim that Cadotte "knew he had stumbled on to something" when he performed the November experiments. C.A. App. 168. To the contrary, based expressly on the credibility of the witness, the district court found that Cadotte in fact did not consciously duplicate the November 1977 experiments in February 1978. *Id.* at 169. Hydranautics also claimed "that

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[5] Hydranautics claimed in its papers opposing rehearing in the Ninth Circuit (at 10-11) that even if it already had litigated and lost the issue of fraudulent *procurement* of the patent, it had not yet litigated the issues of "fraudulent *retention* of the patent and [FilmTec's] bad faith *enforcement* of a patent that [FilmTec] knew it did not own." That assertion misses the point. The Federal Circuit held that the question of the patent's ownership was genuine up until the Federal Circuit reversed the district court on appeal. Pet. App. 13a-14a. Once the supposed "fraud" is put aside, FilmTec could hardly "kn[o]w" it did not own the patent when the question was so close that it prevailed on that issue at trial.

Cadotte kept the invention to himself so that he could take it with him to FilmTec", but the district court dismissed that suggestion, again based on factors peculiarly within the province of the trier of fact: Cadotte's "testimony and demeanor lead[] the court to conclude that there was no such subterfuge." *Ibid.*

When Hydranautics again presented the same fraud claims in antitrust garb, the district court noted (Pet. App. 24a) that one of the claims of invalidity in the patent case—although not the claim of invalid title that ultimately prevailed in the Federal Circuit—"had hinged on whether Cadotte and FilmTec kept the invention a secret in order to obtain the patent," and that the court had "explicitly rejected Hydranautics' contention that Cadotte and FilmTec defrauded the Patent Office." "Thus," the district court concluded, "Hydranautics fully litigated whether FilmTec and Cadotte concealed their knowledge of the invention from the Patent Office." *Ibid.* Hydranautics has no right to relitigate issues it already has lost, much less to consume this Court's scarce resources in the exercise.

The Federal Circuit's determination that the patent belonged to the United States was not inconsistent with the district court's finding that there was no fraud or subterfuge in the procurement of the '344 patent, and, in fact, the Federal Circuit expressly determined to leave the district court's credibility findings undisturbed. See 982 F.2d at 1553. The later determinations of the Federal Circuit that the "issue of what Cadotte invented, and when" was "genuine," and that FilmTec's understanding of that critical issue was "not without reason" (Pet. App. 13a-14a) likewise must rely on the undisturbed factual findings of the district court, particularly in light of the Federal Circuit's explicit focus on "the manner in which the patent application was prosecuted" (*id.* at 8a). If the question of "precisely what Cadotte invented, and when" was in doubt because of Cadotte's and

FilmTec's fraud, it could not have been "genuine," and a view of the law that relies on one's own intentionally false representation of the facts is, unlike FilmTec's position, "without reason." The distinction between probable cause and objective baselessness rests on the facts known to "a reasonable litigant in the defendant's position." *Professional Real Estate*, 508 U.S. at 63.

Thus, neither the conclusion that the actual timing of Cadotte's invention presented a "genuine" issue, nor the conclusion that FilmTec's understanding of the patent ownership issue was "not without reason," could result from anything but an adoption of the district court's determination that Cadotte and FilmTec did *not* intentionally *conceal* or *misrepresent* the actual date of the invention from the Patent Office. Had the court of appeals agreed with Hydranautics that those issues remained open, it could not have held simultaneously (1) that the issue of the timing of the conception of the invention was genuine; (2) that FilmTec had "reason" to believe that it, not the government, owned the patent; and (3) that it was unnecessary to determine whether the *Professional Real Estate* "objective baselessness" screening analysis applied to *Walker Process* claims.

Hydranautics previously has claimed that, notwithstanding the Federal Circuit's express decision *not* to "invade the province of the district court to judge matters of credibility" (982 F.2d at 1553), and its careful opinion reconciling the district court's view of the facts with the Circuit's view of the law, the court of appeals in fact had vacated all of the district court's factual findings even though Hydranautics did not challenge those findings on appeal. Whatever plausibility that position might have had before the district court in the first instance, once the trial court reiterated its factual findings in addressing the antitrust counterclaim, and once the court of appeals expressly relied on the "all of the facts and circumstances" found in "prior litigations" to affirm the

district court (although on different grounds), the Federal Circuit plainly and correctly concluded that there was no factual predicate for the *Walker Process* claims.

We are not quite sure what issue of federal procedure is implicated by the Federal Circuit's acceptance of the factual findings of the district court. But whatever it may be, there is no demonstration of its importance; indeed, it is not even presented by the petition.

B. The Decisions Of The Ninth And Federal Circuits Are Consistent Except In Their Treatment Of Facts

Not only did the two courts of appeals decide different legal issues in their decisions in this case, but they reached their decisions on different facts. The Federal Circuit relied on the district court's findings of fact in the patent litigation, as reiterated in the order denying Hydranautics leave to present its antitrust counterclaim—findings that precluded any claim based on fraud and obviated any need for the Federal Circuit to consider the vitality of *Walker Process*. The Ninth Circuit, conversely, addressed that legal issue but, because the case was up on a motion to dismiss in a facially separate action, looked no further than the facts alleged in the separate antitrust complaint; that court left the district court with the task of determining the *res judicata* effect of the fact-specific Federal Circuit decision.

The conclusions of antitrust law advanced by the Ninth Circuit, however, are entirely consistent with the rule that the Federal Circuit followed. The Federal Circuit analyzed Hydranautics' antitrust allegations under the "objective baselessness" standard of *Professional Real Estate*, with explicit reference to "the manner in which the patent application was prosecuted" (*id.* at 8a). The Ninth Circuit interpreted the *Walker Process* action in precisely this light, and held that *Walker Process* claims were subsumed in, not eliminated by,

the *Professional Real Estate* analysis. The court noted that, under *Professional Real Estate*, "'probable cause' to institute legal proceedings * * * establishes that the litigation is not 'objectively baseless.'" Pet. App. 39a. In the Ninth Circuit's view, *Walker Process* stands for a simple proposition within the framework of *Professional Real Estate*: a patent infringement plaintiff who "obtained the patent by intentional fraud or was an assignee who knew of the patent's infirmity" and who bases litigation—even temporarily successful litigation—"upon that fraud" by definition "would not demonstrate probable cause for a patent infringement suit." *Ibid.*[6]

Applying the Ninth Circuit's *Walker Process* analysis to the "facts of this case * * * [as] established by prior litigations" (Pet. App. 12a), rather than to the naked allegations of Hydranautics' antitrust complaint, would produce the result reached by the Federal Circuit. The litigated facts showed that Cadotte and FilmTec did not obtain the '344 patent through fraud or subterfuge surrounding the November 1977 experiments, but rather through a mistake of law about the significance of those experiments.[7]

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[6] The Ninth Circuit so far is the *only* court of appeals to explore the relationship between *Walker Process* and *Professional Real Estate*. The Federal Circuit, as we noted above, reserved the issue in deciding this case, and in *Pro-Mold & Tool Co.* v. *Great Lakes Plastics, Inc.*, 75 F.3d 1568, 1575 (1996), simply asserted that *Walker Process* remained in force. The District of Columbia Circuit discussed *Walker Process* and *Professional Real Estate* in *Whelan* v. *Abell*, 48 F.3d 1247 (D.C. Cir. 1995). The issue in *Whelan* did not concern antitrust at all, however, but involved the constitutionality of using certain common law torts to impose liability for fraudulent litigation and lobbying. The *Whelan* court accordingly did not find it necessary to divine the exact relationship between *Professional Real Estate* and *Walker Process*.

[7] All of Hydranautics' allegations of fraud trace back to the differences of opinion about when the invention in the '344 patent was "conceived"

Hydranautics asserts that FilmTec "concedes that the Ninth Circuit 'decision conflicts with the * * * decision of the Federal Circuit *in the same case.*'" Pet. 3 (quoting FilmTec's rehearing petition in the Ninth Circuit). As Hydranautics is well aware, however, FilmTec did not assert that there was any conflict on the issue of law that Hydranautics raises here—whether *Walker Process* claims survive *Professional Real Estate*. Rather, FilmTec asserted that the Federal Circuit's decision was "*res judicata* as between these parties" (Pet. for Reh. 2 (9th Cir.)), and that the Ninth Circuit accordingly should have deferred to the Federal Circuit's prior decisions rather than remanding the case to the district court (*id.* at 4-5). At the time of its response to the rehearing petition in the Ninth Circuit, Hydranautics was not confused about those arguments:

> FilmTec's Petition therefore boils down to a single point, *i.e.*, because the Federal Circuit *accepted* FilmTec's argument that Hydranautics' antitrust claim was 'futile' before this Court *rejected* the same argument, this Court should stand aside * * *. * * * [U]nder these circumstances, this Court's remand to the district court for a determination, in the first instance, of the effect that the final Federal Circuit opinion may have upon this case, if any, is entirely appropriate.

Hydranautics Response to Pet. for Reh. 1-2 (9th Cir.). As that discussion makes apparent, the issue on which FilmTec perceived a conflict is not presented in Hydranautics' petition, and in any event is not ripe for review.

Under the circumstances, there is no reason to assume that the Federal Circuit would not have reached the same result as the Ninth Circuit if, like the Ninth Circuit, it had confined

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as a matter of reasoning or as a matter of law.

its consideration to the face of the complaint. That is not the stuff of which circuit conflicts are made.

C. The Federal Circuit Recently Held That *Walker Process* Claims Are Valid

There is in fact confirmation that the conflict hypothesized by petitioner does not exist: the Federal Circuit has made unmistakably clear its view that the *Walker Process* action is alive and well after *Professional Real Estate*. The Federal Circuit—including Judge Plager, the author of the decision in *this* case—expressed that view just two months after deciding the case below, and scarcely two weeks after denying rehearing and rehearing *en banc* without a recorded dissent. The court held that the Lanham Act did not afford an additional remedy for defendants in fraudulently filed patent infringement actions precisely because, as the Federal Circuit put it, this Court "has held that 'enforcement of a patent procured by fraud on the Patent Office may be violative of § 2 of the Sherman Act provided the other elements necessary to a § 2 case are present.' *Walker Process.*" *Pro-Mold & Tool Co.* v. *Great Lakes Plastics, Inc.*, 75 F.3d 1568, 1575 (1996). Accordingly, the Federal Circuit held, there was no reason to recognize additional punishments for fraud or inequitable conduct before the Patent Office: given the unenforceability of a patent obtained through inequitable conduct, and the *Walker Process* action when a fraudulently obtained patent becomes a vehicle for anticompetitive conduct, "there are adequate remedies to deal with inequitable conduct when it is found." *Ibid.*

Hydranautics unsurprisingly did not see fit to call the Court's attention to *Pro-Mold*, because that opinion makes clear that the Federal Circuit does not consider *Walker Process* claims to be obsolete. When it confronts a case that, unlike this one, actually presents an unadjudicated *Walker Process* claim, the Federal Circuit appears likely to agree

with the Ninth Circuit that such a claim may survive *Professional Real Estate*.[8]

* * * * *

Hydranautics is left where it began: with unfavorable determinations of fact that undermine its antitrust action under either *Noerr-Pennington* or *Walker Process*. The question of law that Hydranautics identifies to support this Court's review was not decided by the Federal Circuit, and, as might be expected under the circumstances, a decision by this Court on the issue would not change the result. For that reason, too, the petition should be denied.

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[8] Indeed, there *cannot* be a true and enduring conflict between the Federal Circuit and the Ninth Circuit on a matter of antitrust law, because the Federal Circuit "must approach a federal antitrust claim as would a court of appeals in the circuit of the district court whose judgment [it] review[s]." *Carroll Touch*, 15 F.3d at 1583 n.10 (quoting *Loctite Corp.* v. *Ultraseal Ltd.*, 781 F.2d 861, 875 (Fed. Cir. 1985) (rejecting, on basis of *Noerr-Pennington*, antitrust counterclaim to patent infringement suit)); *Argus Chemical Corp.* v. *Fibre Glass-Evercoat Co.*, 812 F.2d 1381, 1384 (Fed. Cir. 1987) (looking to Ninth Circuit law in deciding whether to "extend *Walker Process*"). In its response to the rehearing petition in the Ninth Circuit, Hydranautics acknowledged (at 4-7) this consistent practice, but claimed that the Federal Circuit had silently and inexplicably departed from the practice in the decision below. Far more plausible—and consistent with what the Federal Circuit *said* below—is the conclusion that the court simply recognized that, given what has been litigated already in this case, Hydranautics had no hope of pressing an antitrust claim based on a purportedly fraudulent patent.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

PAUL W. HEIL
GARY C. COHN
The Dow Chemical Company
2030 Dow Center
Midland, Michigan 48674
(517) 636-0452

ANDREW L. FREY
Counsel of Record
DONALD M. FALK
Mayer, Brown & Platt
2000 Pennsylvania Ave., N.W.
Washington, D.C. 20006
(202) 463-2000

JAMES R. MARTIN
Gibson, Dunn & Crutcher
333 South Grand Avenue
Los Angeles, California 90071
(213) 229-7000

Counsel for Respondent

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